FINAL TRANSCRIPT

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LEH - Preliminary 2008 Lehman Brothers Holdings Inc. Earnings Conference Call

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PRESENTATION

Operator

Good morning and welcome to the Lehman Brothers conference call. Parties will be on a listen-only mode until the question-and-answer session. (OPERATOR INSTRUCTIONS) This call is being recorded. If you have any objections you may disconnect.

I would now like to turn the call over to Mr. Ed Grieb, Director of Investor Relations. Sir, you may begin.

Ed Grieb - *Lehman Brothers Holdings Inc. - Director IR*

Thank you for joining us today. Before we begin, let me point out that this presentation contains forward-looking statements. These statements are not guarantees of future performance. They only represent the Firm's current expectations, estimates, and projections regarding future events. The Firm's actual results and financial condition may differ, perhaps materially, from the anticipated results and financial condition in any such forward-looking statements.

These forward-looking statements are inherently subject to significant business, economic, and competitive uncertainties and contingencies, many of which are difficult to predict and beyond our control. For more information concerning the risks and other factors that could affect the Firm's future results and financial condition, see risk factors and management's discussion and analysis of financial condition and results of operation in the Firm's most recent annual report on Form 10-K and most recent quarterly report on Form 10-Q as filed with the SEC.

The Firm's financial statements for the second fiscal quarter of 2008 are not finalized until they are filed in its quarterly report on Form 10-Q for the second fiscal quarter of 2008. The Firm is required to consider all available information through the finalization of its financial statements and the possible impact on its financial condition and results of operations for the reporting period, including the impact of such information on the complex and subjective judgments that will be discussed on today's call, as well as estimates the Firm made in preparing certain of the preliminary information included in these remarks.

Subsequent information or events may lead to material differences between the preliminary results of operations described in these remarks and the result of operations that will be described in the Firm's subsequent earnings release, and between such subsequent earnings release and the results of operations described in the Firm's quarterly report on Form 10-Q for the second fiscal quarter of 2008. Those differences may be adverse. Listeners to these remarks should consider this possibility.

This presentation contains certain non-GAAP financial measures. Information relating to these financial measures can be found under the footnotes in this morning's preliminary earnings press release, which has been posted on the Firm's website, www.Lehman.com, and filed with the SEC in a Form 8-K available at www.SEC.gov.

Now I would like to turn the call over to our Chief Financial Officer, Erin Callan. Erin?

Erin Callan - *Lehman Brothers Holdings Inc. - EVP, CFO*

Thank you, Ed. Good morning, everybody. I really appreciate you joining on such short notice this morning. Today I want to cover the press releases we issued earlier in the day, the press release of our second-quarter estimated earnings, and the offering of $6 billion of equity which is comprised of $4 billion of common and $2 billion of a mandatory convertible preferred stock.

First, very importantly upfront, I want to caveat since we are only approximately one week into our quarterly financial closing process, the financial information I will be talking about today is all preliminary and represents estimates that are still subject to refinement and to change. As indicated in the release, we expect to hold a follow-up call covering our full results with greater detail in another presentation next Monday, June 16.

I will take Q&A at the end; however, again, be patient given the preliminary nature of these earnings numbers. Please understand and expect that some of the answers I am going to give will be more limited than usual and certain questions we may not be able to answer at this time, but we will have the intent to answer them next week. There will be an opportunity for additional Q&A with the presentation on June 16.

The estimated net loss in our press release this morning that we reported for the second quarter is $2.8 billion, which results in a diluted EPS loss of approximately $5.14 per share. These amounts include approximately $4.9 billion of mark to market adjustments, principal investment losses, and other dynamic hedging losses.

Our estimated net revenues for the quarter are negative $700 million. Compensation expense is $2.3 billion. Non-personnel expense is $1.1 billion. And our tax rate for the quarter is approximately 32%.

Preferred dividends this quarter are about $100 million, and we estimated our diluted share count to be 559 million shares ahead of today's offering.

Book value per share -- again, without counting this morning's transaction -- at the end of the quarter is estimated to be slightly over $34 per share.

The net loss of $2.8 billion compares to net income of $489 million last quarter and $1.3 billion in the second quarter of 2007. Importantly -- and you will hear this throughout the call -- during the quarter we executed on a number of the capital and liquidity goals that we set out for ourselves, which includes as follows -- lowering growth and net leverage to less than 25 times

and less than 12.5 times, respectively. Both of those numbers are prior to today's capital raise. Reducing our gross assets by approximately $130 billion and our net assets by approximately $60 billion, with a large part of the reduction, as I will talk about in detail, coming from less liquid asset categories and also providing significant price visibility for marking the remainder of our inventory.

We significantly reduced our exposure to asset classes such as residential and commercial mortgages and real estate held for sale of approximately 15% to 20% in each case, and acquisition finance exposure by almost 35%. We also reduced our high-yield or non-investment-grade debt inventory in the aggregate, which includes our funded acquisition finance positions, by greater than 20% in the quarter.

I want to be clear at this point that we do not intend to lower our leverage ratios from these levels.

From a liquidity perspective we made great progress, growing our cash capital surplus to approximately $15 billion -- that is the surplus -- from $7 billion in the first quarter. We grew our liquidity pool to almost $45 billion, and that compares with $34 billion at the end of the first quarter.

We have completed in its entirety our budgeted funding plan for the full year 2008 of approximately $33 billion. That also includes $5.5 billion of public benchmarked long-term debt that we have executed in the last few months alone.

We spent a reasonable amount of time increasing our overfunding amounts on the repo side, increasing those to approximately 25% in overfunding from 15% last quarter.

We executed on all these goals in a market environment that was especially challenging and was consistent with our commitments we made at the beginning of the quarter.

Our growth in net mark to market adjustments this quarter were $3.6 billion and $3.7 billion, respectively, and came primarily in the residential and commercial mortgage books. For the quarter we benefited from the widening of our credit spreads on our own debt and recorded approximately $400 million of gains on structured debt liabilities since the end of February.

Our hedges on illiquid assets generated approximately $100 million of additional losses this quarter, as gains from some hedging activities were more than offset by losses in others; and I will talk about that in more detail.

The overall efficiency of hedges this quarter was significantly impacted from the unprecedented dislocation between our derivative hedges and the underlying cash market, a theme that took place throughout the broader capital markets.

In addition to the hedging of our less liquid asset exposures, we also maintained defensive positions in our credit and rates businesses. Market movements in the quarter including an anomalous shift in basis resulted in approximately $700 million in losses this quarter.

Our principal and private equity portfolios also incurred losses of approximately $500 million; and on a combined basis, aggregating all these losses, continued asset repricings of $3.7 billion, principal and other losses, all served to negatively impact our revenues by a total of approximately $4.9 billion.

When we look at this number versus a $700 million of negative reported revenues, this corresponds to run rate revenues for the quarter of approximately $4.2 billion in what was a very challenging and eventful market environment.

As we look forward our underlying client franchise remains remarkably strong given the broader market context for the quarter across our peer group. Capital Markets' client revenues declined by only about 2% quarter over quarter. We continue to see our share of wallet with our institutional Capital Markets clients increase. Our US fixed income trading share increased to 12.8%

year to date from 12.2% last year. And we improved our Global Equity trading share for the year across most major stock exchanges.

Longer term, we see real opportunity in the Capital Markets as the competitive landscape is improving in our favor and as risk is being priced more appropriately.

When asked about the viability of a mid-teens ROE earnings model with lower leverage, we see the recent trend supporting higher ROA than margins and a markedly advantageous competitive environment for Lehman Brothers.

For example, we also strengthened our market share in Investment Banking this year, including completed M&A where we have grown our global market share to 24.4% from 19.4% last year and our global equity market share rose to 5.8% from 3.6% last year.

Activity levels across all our businesses which were slow early in the quarter picked up in the latter part of the quarter. So let me go through some additional detail on our revenues and net income performance to give you more perspective.

Our Capital Markets revenues of negative-$2.4 billion were significantly impacted by the mark to market adjustments and other losses that I noted earlier. This compared with $1.7 billion in the sequential period and $3.6 billion in the second quarter of last year.

Within Capital Markets, Fixed Income revenues were negative-$3 billion and Equities Capital Market revenues were $600 million, with the equity revenues being impacted by a $300 million principal related loss this quarter. We lay out our growth in net mark to market adjustments on page 9 of this morning's earnings release to simplify it.

In residential mortgages our gross adjustments were approximately $2.4 billion. These losses arose primarily from two different factors. First, the collapse of a large mortgage hedge fund, Peloton, and the events around Bear Stearns at the beginning of the quarter caused significant price deterioration, particularly at the top of the capital structure for resi assets.

Second, as I mentioned earlier, we actively reduced our exposure throughout the quarter, particularly in high-risk positions such as nonperforming loans and subprime, which allowed us better pricing information on this asset class. Our residential hedges provided only $400 million of benefits this quarter; in other words hedges offset approximately 17% of the losses.

As a reminder this compares to a benefit of over 70% in the prior quarter and similar amounts in Q3, Q4 '07. This lower benefit resulted from the dislocation between cash assets and the asset-backed single name and indexed derivatives that we use as hedges. Thus our net write-downs in residential mortgages were $2 billion.

It is worth noting that it was an extremely active quarter for secondary trading of residential product. Outside these asset losses, our business generated strong operating revenues on the back of that trading activity.

In other nonresidential asset-backed securities, our growth and net adjustments were approximately $300 million. There are a variety of different debt instruments included in this category, such as franchise related whole business financings, student loans, small business loans, auto loans, credit card, most of which were categorized as level 2 assets in the first quarter. These assets include securitized asset-backed issuances as well as whole loans.

In response to specific questions on this category, these assets do not include any ABS CDO balances, where our exposure in ABS CDOs is approximately $600 million and is included in our residential mortgage exposure line.

Last quarter approximately 12% of the balance of asset backed securities was unrated and therefore reported as below investment grade. We have now received AA ratings on a significant amount of this previously nonrated portion.

Commercial mortgages and real estate had gross mark to markets totaling approximately $1 billion. This quarter we sold over $7 billion of commercial mortgage positions across different parts of the capital structure to over 170 different client accounts and primarily in the form of whole loans. The breadth and scale of this selling is a sign of the return of investor appetite to this asset class and gives us very good price observability in marking the remainder of our commercial book.

Also, more than 75% of the $7 billion sale volume were outright sales without financing. Mezzanine sales were consistent with a 20% mezzanine pro rata portion of this total book.

However during the quarter we did see spreads on our commercial hedges tighten by several hundred basis points. For example the CMBX 4 series has tightened anywhere from 100 to 300 basis points depending on the tranche, while the spreads on our largely floating-rate positions did not change materially.

Thus our hedges, including single name and indexed derivatives, had losses of approximately $400 million, resulting in an aggregate commercial mark to market adjustment of $1.4 billion.

I would like to stop for a moment and comment on the many questions we have received about two investments. Archstone is the first. Archstone is a company which owns a very diversified portfolio of high-quality apartment assets, the underlying fundamentals of which continue to improve. For example it had first-quarter '08 same-store revenue growth of 5%. Notwithstanding that performance, in recognition of the change in real estate market valuation metrics, we have taken a significant mark on that position. The current mark reflects a projected mid-teens internal rate of return on that capital. As a matter of Lehman policy and consistent with industry practice we do not disclose specific marks.

Similarly, our SunCal exposure, which resides in both our fixed income and third-party managed funds area, represents approximately $1.6 billion of unlevered direct Lehman exposure. The exposure has been marked to reflect an approximate 15% unleveraged internal rate of return. That mark takes into account recent similar large transactions that have occurred in relevant markets. For example, of the total exposure, approximately $250 million is in the Inland Empire, with an adjusted basis of approximately $20,000 per lot.

Moving on, in acquisition finance our growth in net mark to market adjustments were approximately $300 million and $400 million, respectively. It has been suggested we have not been sufficiently aggressive in marking our inventory. In fact, I believe our successful hedging performance over the past year has muted the magnitude of our gross markdowns.

To give you the cumulative size of gross losses we have taken on these asset classes since the beginning of fiscal '07, most of which occurred in the past 12 months, in residential mortgages and other asset backed securities we have taken over $11 billion of aggregate write-downs. In commercial mortgages and real estate held for sale we have taken approximately $3.5 billion of gross write-downs. In acquisition finance we have written down almost $2 billion of assets.

In total we have taken approximately $17 billion in gross mark to market adjustments since the beginning of last year, offset by hedging benefits of approximately $7.5 billion.

Given the lack of benefit from hedging this period, I would like to make a few comments on our hedging strategy that we have used against illiquid assets. First and foremost, it remains our intent to actively hedge our exposures with the goal of mitigating the impact of market movements. We believe the ineffectiveness of our hedges this quarter was an aberration.

Shorting cash assets is not practical because of limits on borrow. Derivatives are and will continue to be the most efficient hedging option, and we do not expect further divergence between derivatives and cash from here.

I would also like to point out how each month of the quarter was quite distinct. March was characterized by Peloton and the collapse of Bear Stearns, which both put tremendous pressure on the senior part of the residential mortgage capital structure. This is evident in the level of gross write-downs we again saw in resis in March.

April was characterized by the dislocation of credit spread tightenings between cash and derivatives. Lastly, in May we saw some return to normalcy. In fact excluding asset marks, May was one of our stronger run rate revenue months.

Within the broader context of Fixed Income Capital Markets, our overall client activity levels remain strong. Fixed Income client revenues were down slightly from a strong first quarter. Year to date 2008 client revenues are up substantially versus last year. Importantly our relationships with clients and counterparties remain strong, with no material loss of lenders, clients, nor counterparties during the quarter.

We saw continued strong secondary flows in securitized products, municipals, energy, credit, interest rates, and financing, which are all up significantly versus a year ago.

Equities Capital Markets revenues of approximately $600 million declined 60%. But included within the Market Equities segment are losses on private equity and principals. The market environment in this area was also challenging this quarter for principal, as we experienced estimated losses of $300 million in equity driven in part by depreciation of our investment in GLG.

As you know we had a gain of approximately $200 million on principal in private equity last quarter, so a $500 million swing period over period for that segment. In the second quarter of '07 the comparable gain was approximately $300 million.

Excluding these principal and private equity marks, we saw client revenues in the Equities business remain essentially flat versus both comparable periods. Volatility revenues declined versus both periods, while execution services remained solid year over year, but down versus the trailing quarter. Prime services had record revenues, even in the face of continued deleveraging by hedge funds post the events of mid-March.

Turning to Investment Banking we had revenues of approximately $860 million, which were flat to last quarter, down 25% versus a year ago, and flat in the context of a significantly declining market activity. Debt underwriting revenues were down versus last quarter as investment-grade issuance remained strong, while both a comparable periods contained stronger high-yield revenues.

Equity underwriting revenues were up more than 50% from last quarter and flat versus a year ago on strong issuances and participation by Lehman in the financial sector, while IPO activity remained lower than a year ago period. Advisory revenues were also lower given the current financing environment.

For Investment Management, revenues of approximately $850 million declined 12% versus last quarter and 10% higher than the second quarter of '07. Private Investment Management revenues remained strong in both Fixed Income and Equities. Asset management declined 20% versus the first quarter primarily on the back of a decline in incentive fee revenue and income from minority investments in third-party hedge fund managers.

We expect our assets under management balances to be essentially flat this quarter at $277 billion, despite all the market turmoil.

Moving to expenses, for the quarter our total compensation expense is estimated to be $2.3 billion, which reflects a $480 million increase from last quarter. During the quarter we incurred severance costs that were included in this comp expense. Also during the quarter our headcount declined by 1,900, people most notably in the US, as we continue to scale our businesses to their respective opportunities.

For the quarter our non-personnel expense totaled $1.1 billion. In this area we have implemented a number of further cost-saving initiatives during the quarter, which will generate approximately $250 million in annualized savings going forward, particularly in real estate occupancy.

Now let me make a few additional comments about our balance sheet and our capital. We ended the quarter with total stockholder equity of approximately $26 billion -- again, prior to the capital raise, and up 6% from the first quarter. This includes the issuance of $4 billion of convertible preferred stock in April.

Our long-term capital rose to $156 billion from $153 billion at the end of the first quarter. In addition to the convert we raised in April, we raised an additional $5.5 billion in benchmark long-term issuances this quarter, including $2 billion of 30-year subordinated debt. Consequently, as I mentioned earlier, we have completed our entire budgeted funding plan for all of 2008 and do not need to revisit the debt markets.

Book value per share declined this quarter to approximately $34 a share driven by our net loss. Taking into account today's capital raise, we estimate book value per share to be approximately $33 a share.

As we have previously stated, our goal in the second quarter was to bring down gross and net leverage. Most importantly, we wanted to accomplish that by reducing exposure to residential and commercial mortgages and leveraged finance exposures. And we have done this.

For the quarter we estimate we reduced our total assets by approximately $130 billion from $786 billion at February 29. With this reduction in gross assets, combined with our convertible preferred issuance in April, we expect to report a gross leverage ratio less than 25 times. Again, this excludes the latest capital raise, which brings us below 22 times.

We reduced our net assets by approximately $60 billion this quarter, resulting in net leverage of under 12.5 times versus 15.4 in the first quarter. And again, less than 10 times net leverage with the capital raise.

I will provide more on the specific reductions and exposures on our earnings call on June 16. However I do feel comfortable stating today that residential mortgage, commercial mortgages, and real estate held for sale will each be down between 15% and 20%, and acquisition finance exposure down approximately 35% on the quarter.

Our deleveraging was aggressive, as you can see, and is complete.

For level 3 assets, just to make a comment, I can't give you any specific amount at this time, as it is too early in the closing process of our books. While the valuation of all our assets is complete, our positions must now be evaluated -- and that includes thousands of positions -- to determine the level of price transparency and observability on May 30 in order to appropriately classify them for our 10-Q disclosure. Once we complete this process I am sure we will see a number of reclassifications into and out of level 3 this quarter. Certainly there were a number of sales that took place out of level 3 and also transfers.

Our CSE capital ratios for tier one and total capital are very strong, and we will provide additional details next week on those numbers for the conference call.

To address the capital raise, we also announced today the offering of $6 billion of equity comprised of $4 billion of common equity and $2 billion of mandatorily convertible preferred stock. Both offerings were substantially oversubscribed, have been fully allocated, and have commenced trading. The proceeds of the offering will be used to bolster capital in light of our loss for the quarter and to increase our financial flexibility.

To be clear, we do not expect to use the proceeds of this equity raise to further decrease leverage but rather to take advantage of future market opportunities, which are abundant. Overall, we stand extremely well capitalized to take advantage of these new opportunities.

From a risk management perspective, we continue to operate in our disciplined manner we are known for. Our balance sheet and exposure levels declined throughout the period as discussed; and this was reflected in our risk numbers as well.

Our period-end value at risk was $75 million on an unweighted basis and $104 million on a weighted basis. This compares to unweighted VAR of $89 million at the end of last quarter and weighted VAR of $106 million at February 29.

From a counterparty exposure perspective, our non-investment-grade derivative counterparty exposure continues to be approximately only 5%; and our exposure to monoline remains minimal.

Liquidity. Next I will review liquidity and the framework in a bit more detail. First, given the unprecedented market events over the past few months let me review some of the recent funding and liquidity actions we have taken to be responsive.

We have significantly increased our cash capital surplus and liquidity pools since mid-March. We completed our targeted funding plan for the year. We increased the funding provided by our banks with customer deposits for less liquid assets, and we will continue to grow this funding source. And we increased the overfunding amount in our tri-party repo and extended the maturities of these facilities.

We ended the quarter with a Holding Company liquidity pool of approximately $45 billion, which is our largest ever. This compares to a liquidity pool at Holdings of $34 billion in the first quarter.

To note, the liquidity pool is primarily invested in cash, bank deposits, government securities, and overnight repo collateralized by government securities.

As discussed in the past, our liquidity framework is structured to cover our expected cash outflows at the Holding Company for a 12-month period without raising new cash in the unsecured market or selling assets outside the liquidity pool. At the end of the second quarter the $45 billion of our liquidity pool was well in excess of our short-term unsecured financing liabilities, which includes the current portion of long-term debt totaling $31 billion.

So the combination of short-term debt and long-term debt rolling into current portion approximates that $31 billion. Additionally, our bank entities and regulated broker-dealers carry significant excess liquidity in the form of unencumbered collateral to fund qualifying assets.

As I have noted previously we have tested the Fed's new Primary Dealer Credit Facility on occasion with no outstanding balance at quarter-end. The last time we accessed this facility was April 16 on an overnight basis. I will provide more details on our secured funding position on our full earnings call on June 16.

All in all this was an extraordinarily active quarter. From an operating perspective it was a very challenging market environment, where our practice of utilizing derivatives to significantly hedge our less liquid market exposures did not provide the benefits we have seen in prior quarters, and our defensive positioning strategies also worked against us.

We also experienced a fair amount of volatility early in the quarter, arising from the fallout of the events of mid-March. At the same time we took significant and dramatic steps to reduce our asset exposures, to reduce our leverage, while simultaneously improving our liquidity and capital position. Deleveraging is complete. We do not expect to take the balance sheet down from here.

In spite of the volatile market environment, our employees continue to stay focused on our clients and providing quality valued services, enabling us to continue to take market share in key aspects of all our businesses, as we did the last three months, even in light of the most difficult quarter in our history.

We are raising additional equity of $6 billion which serves to mitigate the loss of $2.8 billion this quarter and to give us flexibility going forward. Our lower leverage, enhanced equity base, and rescaled business platform leave us well positioned as we enter the second half of 2008, a time when we are seeing more business opportunities, including institutional capital markets activity increasing after a slow start in Q2, a pickup in Investment Banking activity particularly since the middle of the quarter, new asset

management mandates in our expanding platform, and our growing presence outside the US where markets continue to develop more rapidly than inside the United States.

So our client-driven business model is providing us with a competitive advantage. There is a significant global seed pool out there, as we have talked about before; and we will continue focusing on our clients, delivering value to them every day and providing the financial and, more importantly, the intellectual capital that they expect from us.

We will also stay focused on the core disciplines we are known for -- risk, expense, liquidity, and capital management -- as we move into the second half.

Now I will be happy to take questions. However, just to repeat again, given the preliminary nature of these earnings numbers, please understand and expect that some of my answers may be more limited than usual and certain questions we may not be able to answer at this time. So operator, if you could open it up to questions.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS) Bill Tanona.

Bill Tanona - *Goldman Sachs - Analyst*

Goldman Sachs. Hi, Erin. So just obviously you guys were pretty defensive I would say this quarter, as you went through the whole deleveraging process.

I guess, how do you kind of change the attitude of the traders and -- to get back into kind of a profit-making risk-taking mode after going through that type of a deleveraging process?

Erin Callan - *Lehman Brothers Holdings Inc. - EVP, CFO*

Yes, it is a fair question, Bill. I think part of the rationale for us this quarter of why we were so aggressive, why we put out explicit targets, and why we had such a tight schedule was exactly that. We didn't want to create a long-term distraction factor to the business operators.

So we have done that. They knew what the targets were. We were explicit from the beginning of the quarter. They knew there was light at the end of the tunnel. We are already seeing them back in business in terms of risk-taking in an active way. So I think the discipline of getting it done primarily in a single quarter was important to keep the mindsets focused.

Bill Tanona - *Goldman Sachs - Analyst*

Is that also why there was possibly no strategic investor involved in kind of this capital raising? You guys felt you had gone as aggressively as you should have and didn't have the need for additional kind of balance sheet help, if you will?

Erin Callan - *Lehman Brothers Holdings Inc. - EVP, CFO*

Yes, I guess on the strategic front, look, for several years you have heard it from Dick. We have talked about interest in a strategic partner. So it is not to say we don't continue to have interest if there is an appropriate partner for us. But it will be consistent with our objectives; and certainly balance sheet is not something we need at this point from a strategic partner.

Bill Tanona - *Goldman Sachs - Analyst*

Okay, helpful. Then I guess obviously you commented briefly on the level 3 assets. But given the commentary that you had provided and the level of liquidations that you had done and the number of sales that were done, I mean -- is it safe to assume that your level 3 assets are going to be down materially here in the quarter?

Erin Callan - *Lehman Brothers Holdings Inc. - EVP, CFO*

Bill, that is not safe to assume. Certainly there has been a significant portion that went out the door in the sales out of level 3. But there is a number of other asset class reclassifications that I'm expecting can happen this quarter.

For example, our UK resi portfolio would be a good case. That market really lost its price transparency during the quarter. So it is too early to tell how the sum total of all these effects will take place; but I can't give you an assurance that that number is going down. That is not my expectation.

Bill Tanona - *Goldman Sachs - Analyst*

Okay, fair enough. Then I guess just lastly, you know obviously comp and non-comp expenses have jumped up. I know you had talked about severance and some other factors in there.

But as we think about those line items going forward, I mean what type of comp [can] that revenue ratio should we assume? Also what kind of baseline non-comp expenses should we assume?

Then I guess just lastly, given all the capital raises that you have done this quarter, what is your expectations for the ROE that you still think that the core Lehman franchise can generate, particularly in this environment?

Erin Callan - *Lehman Brothers Holdings Inc. - EVP, CFO*

Yes, let me address your first two. It is a little difficult to comment on comp. Obviously we spent a long time during the first quarter in the context of positive revenues, thinking long and hard about the appropriate comp-to-revenue ratio which was 52.5 for the quarter, reflecting a lower revenue environment. That is neither here nor there during the course of this quarter.

I think we are just going to have to see greater visibility as we get out in the year. It is very hard to predict right now. We are going to be competitive. Hard to say yet what competitive means. So don't have a strong perspective I can give you on that.

On non-comp expenses at $1.1 billion this quarter, I think that should be pretty consistent as we move forward. Talked about the savings we are implementing for the rest of the year; it could come down a bit. But I don't expect it to tick up from here.

On ROE as I talked about during the course of the presentation, look, we have had a lot of debate on -- can you achieve reasonable returns with lower leverage? As I talked about, we are seeing higher ROAs. We are getting paid more for our intellectual capital and for our balance sheet capital. So we are seeing better margins in the business.

This is a moment in time on our leverage ratios. We don't anticipate staying here, as we complete the transformation of this balance sheet away from less liquid assets. So I still think on a cross-cycle basis a mid-teen's ROE is a realistic assumption.

Operator

Guy Moszkowski.

Guy Moszkowski - *Merrill Lynch - Analyst*

Good morning, Erin. Listen just to make sure that we are interpreting your sort of percentage reduction numbers correctly, is it fair to assume then that of the $130 billion or so in asset reduction, that about $25 billion is in the resi and commercial real estate finance and leveraged finance categories?

Erin Callan - *Lehman Brothers Holdings Inc. - EVP, CFO*

In terms of the mortgage inventory, across the board it is probably closer to $20 billion.

Guy Moszkowski - *Merrill Lynch - Analyst*

Okay. Then leverage -- whatever the leveraged finance (multiple speakers).

Erin Callan - *Lehman Brothers Holdings Inc. - EVP, CFO*

Yes, the leveraged finance is more meaningful; that is going to be a bigger number.

Guy Moszkowski - *Merrill Lynch - Analyst*

A bigger percentage?

Erin Callan - *Lehman Brothers Holdings Inc. - EVP, CFO*

Apologies; we really wanted to give the specific number, but given the approximation of the balance sheet numbers at this point we actually pulled back on that. And we will definitely give those numbers next Monday.

Guy Moszkowski - *Merrill Lynch - Analyst*

Okay, that's fair. But I just wanted to make sure that I was applying the right percentages to the right numbers.

Erin Callan - *Lehman Brothers Holdings Inc. - EVP, CFO*

Yes.

Guy Moszkowski - *Merrill Lynch - Analyst*

Can you respond maybe to critics who are going to say that the $130 billion of asset sales must be the absolute easiest assets to sell? Can you give us some flavor for some of the more difficult asset class reductions; and whether they are in line with those overall percentages; and the extent to which you might have therefore bitten the bullet with some of those more difficult asset classes and then reflected those prices across the remainder of the book?

Erin Callan - *Lehman Brothers Holdings Inc. - EVP, CFO*

Yes, so it very much is the latter, Guy. So just to get some anecdotal evidence of that at this point -- and we will give more next week. But in terms of the residential book and what we sold there, the vast majority of what we sold was in the form of whole loans, not the securities portion. So the securities portion arguably has greater price transparency in the market. So we sold whole loans, and a significant part was in subprime and NPLs.

So we did sell the risk asset classes which did give us a tremendous amount of visibility back into pricing the rest of our inventory.

The story on the commercial side is very similar. Virtually everything that we sold on the commercial side was in the whole loan category. That does reflect the market appetite that it is harder to find a bid for cash securities without providing financing, which we were generally loath to do. So the bids that we found were back into a conventional home loan market.

I mentioned selling to 170 customers those assets; I think it gives us a very, very strong sense of where the bid is. And 20% of those sales were mezzanine.

So these sales were not limited to our AAA securities portfolio. In fact if anything it was the other way around. We were selling the risk component of these asset classes.

Guy Moszkowski - *Merrill Lynch - Analyst*

Okay, that's helpful just to have that clarity there. Can you talk a little bit more about the $6.5 billion other asset-backed portfolio? I think there has been a lot of confusion as to whether those are CDO assets or not, because of the way that a footnote was worded in your 10-Q. I just think that we would all appreciate a little clarity on what that is.

Erin Callan - *Lehman Brothers Holdings Inc. - EVP, CFO*

Yes, Guy, I appreciate you bringing that up. It is either asset-backed loans or securities. So what is mentioned in the footnote in our Q is a technical reference to CDO technology. It is not intended to be in common parlance what are CDOs.

So as I talked about it, it's things like credit card receivables, aircraft loans, franchise lending loans, etc.; and as I mentioned earlier we only have approximately $600 million of ABS CDOs, and that is in the residential line item.

So it is truly a category that we intended to design to cover any other asset-backed security that we may have in our portfolio. So it covers many, many different positions.

So unfortunately the footnote reference to CDOs was a reference of a technology type not a reference of the asset.

Guy Moszkowski - *Merrill Lynch - Analyst*

Okay, I just wanted to make sure I understood that because of the way the footnote was worded. So thank you for that.

Erin Callan - *Lehman Brothers Holdings Inc. - EVP, CFO*

Appreciate that.

Guy Moszkowski - *Merrill Lynch - Analyst*

Then finally you talked a little bit about what tier one might look like under the new CSE or Basel II basis, and that you are going to talk about that more next week. That kind of implies that basically you will be doing your initial Basel II disclosure at that time.

I have been led to believe that that is going to be an industry event when it happens, that basically everybody is going to be disclosing at around the same time. Is that your understanding? Therefore should we sort of be assuming that everybody will be disclosing that now with second-quarter earnings?

Erin Callan - *Lehman Brothers Holdings Inc. - EVP, CFO*

Yes, everyone will be disclosing in their Q. I can't tell you that I am sure -- I actually don't think many will disclose it in their earnings release.

What we will do next Monday as I just -- again in the interest of transparency and giving guidance -- is we will disclose the range that is our best estimate. Again, this is the kind of thing takes a lot of work at the end of the quarter, but we think it will be helpful to give a range next week.

But I actually expect you will more likely see people wait till their Q. But it will be in the Qs.

Guy Moszkowski - *Merrill Lynch - Analyst*

Okay, that's great. Thank you very much, Erin.

Operator

Glenn Schorr.

Glenn Schorr - *UBS - Analyst*

Hi, Erin. Morning. Just let's start out with a clarity question. Does the 20% mezz -- you said the sales in commercial real estate were -- 20% of it was mezz. Did you comment about breakdown in the commercial book between how much is equity versus mezz versus senior in the remaining book?

Erin Callan - *Lehman Brothers Holdings Inc. - EVP, CFO*

I didn't comment but just as a guide -- and again I will get into this in more detail next week -- roughly 80% is senior and 20% is mezz.

Glenn Schorr - *UBS - Analyst*

And nothing equity?

Erin Callan - *Lehman Brothers Holdings Inc. - EVP, CFO*

No, not in the commercial and mortgage line items.

Glenn Schorr - *UBS - Analyst*

Okay, okay. I know you are not commenting on marks on Archstone besides that it has been marked each quarter. But just curious. Where would the mark show up? Like in the table on page 9, would it be in any one of those buckets?

Erin Callan - *Lehman Brothers Holdings Inc. - EVP, CFO*

Yes, it will show up on page 9. It will show up in the commercial mortgage related position line item.

Glenn Schorr - *UBS - Analyst*

Okay. That is where it has been if I look back at the '07 and first-quarter tables?

Erin Callan - *Lehman Brothers Holdings Inc. - EVP, CFO*

Yes, it has been there consistently.

Glenn Schorr - *UBS - Analyst*

Okay, cool. Then in terms of the 15% of the 20% reduction in resi, commercial, and real estate owned, I think there is an assumption that -- by me and others -- that if you had it your way you would sell lots more than 20%. You would have reduced it by say 50%. I don't know if that is correct or not. But can you talk about -- like did you want to reduce by 50% and you have got to take what the market gives you?

Then what is like, what is normal? Because there is also an assumption -- and I don't think it is the same -- in CDO land, yes, we would like all that crap off our balance sheet. But here I am assuming that there are some positions that you actually want to hold on to over time. I wonder if you could talk to that.

Erin Callan - *Lehman Brothers Holdings Inc. - EVP, CFO*

Yes, I think your latter point is the correct one, right? So in all these things you look at selling these assets with a balancing act between what you are selling at today in order to derisk your concentrated exposure, and what is the P&L [kit] going forward?

So as I talked about we have already taken $11 billion of accumulated writedowns in the resi asset class. We certainly think where these things have marked they have real value. So the objective is how to take down the risk in a measured way that is meaningful, while preserving the upside that we think is inherent in the asset class where we have been a great operator.

So we did not target nor intend to sell more than 20%. It is not to say we couldn't have. There was a market; we could have.

But it was a deliberate decision in terms of that balancing act of what upside we want to retain and of what -- and also in fairness to you, Glenn, to your question -- how much of an impact do you want to have on the market?

The larger you do sales -- I mean if you go out and do a portfolio sale of $30 billion of resi mortgages, you will create a market event on pricing. Right? So one of the things I want to highlight about this quarter is that is not the strategy that we took.

This was a vigilant day by day effort, $10 million of inventory here, $20 million there, to optimize the pricing outcome to the Firm and our shareholders. It was very difficult to do it in that fashion. So we didn't want to do a portfolio trade and just walk away. There would have been a significant P&L impact for taking that approach.

Glenn Schorr - *UBS - Analyst*

Were these lots of realized write-downs? In other words is most of this produced by sale, or is this just markdowns as well? Is there any combination you can talk to us about?

Erin Callan - *Lehman Brothers Holdings Inc. - EVP, CFO*

The actual realized losses associated with the sale is actually pretty immaterial given the size of the sales. So the losses for the quarter are truly write-downs reflective of the market conditions and the deterioration of prices during the course of the quarter, and the better price visibility that we had this quarter given all that activity than we had in prior quarters.

Glenn Schorr - *UBS - Analyst*

Okay, last one. Sorry, Erin.

Erin Callan - *Lehman Brothers Holdings Inc. - EVP, CFO*

No problem.

Glenn Schorr - *UBS - Analyst*

So in April you had the capital raise and it was a little bit of a reverse inquiry, and I think something that you mentioned as not overly critical from a corporate finance perspective. Then in mid-May you talked about marks being something a lot smaller than the first quarter's marks. You mentioned May was better.

So it just felt like this was a bigger loss than I think we all kind of braced for. The ineffective hedges and the impact of March and all that stuff, it just seemed to accelerate in May, even though May you mentioned was just a better month. I am not sure --

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Erin Callan - *Lehman Brothers Holdings Inc. - EVP, CFO*

Yes, so let me make some comments on that. So the corollary to the write-down number for this quarter, okay, the mark to market adjustment of 3.6 growth actually compares apples-to-apples in Q1 something about $5 billion. So there definitely was a slowdown in the pace of write-downs on a gross basis.

So it is all in the hedging in terms of the outcome, and a lot of that came through during the month of April. We talked about the resi part, the cap structure being affected in March. April had a lot to do with derivatives and cash conversion, and diversions that went on during that month.

And there is some part of the portfolio, just to be practical, that even though it is marked throughout the quarter you do your final marking obviously at the end of the quarter on the more difficult to mark collateral. So that by nature will be backended in terms of how the losses come through the P&L.

Glenn Schorr - *UBS - Analyst*

That makes sense. Cool. Sorry for so many questions. Thank you.

Erin Callan - *Lehman Brothers Holdings Inc. - EVP, CFO*

My pleasure.

Operator

Prashant Bhatia.

Prashant Bhatia - *Citigroup - Analyst*

On the hard to sell assets are you open to doing something like a Blackrock UBS transaction? Or is that just something that is too detrimental to the P&L to do from your perspective?

Erin Callan - *Lehman Brothers Holdings Inc. - EVP, CFO*

I guess, two things. One, I would be open to doing that kind of a transaction if I could keep a piece of the upside. So that would be a critical aspect of it.

And two, I wouldn't want to do it on terms where we gave generous financing to the buyer, so to speak. So as we talked about, we have been very hesitant to do the transactions we have done this quarter with financing. We wanted to [place] to the cash bid.

So it would have to be in a way that either had very good financing terms from our perspective and also where we could retain the upside in a meaningful way.

Prashant Bhatia - *Citigroup - Analyst*

Okay. That seems to reflect your confidence in where that pool of assets – which is probably down to about $65 billion-ish – is marked right now.

Erin Callan - *Lehman Brothers Holdings Inc. - EVP, CFO*

Exactly. So I don't want to give away what I think is some material upside there.

Prashant Bhatia - *Citigroup - Analyst*

Okay. Then as we think about the equity you have raised about $12 billion this year in total. But you have only taken $2.8 billion in losses. Obviously you have deleveraged.

But should we think about that excess equity as really being held up against this hard to value portfolio? Or how do you think about that in terms of how much equity to hold against the portfolio?

Erin Callan - *Lehman Brothers Holdings Inc. - EVP, CFO*

No, I am actually comfortable that we have sufficient equity to cover those assets as we stand. I think the additional equity in some ways which you may appreciate is a bit of art and not science. It is about what level of equity do we need as an organization to bolster the balance sheet so we can get back to running our business on a day-to-day basis and stop the distractions and discussions we have related to the questions about our balance sheet.

So it is hard to come up with that number. I think we have done a good job in sizing what that confidence number is, and that was our objective.

So it is not to hold against specific positions. It is designed to end the chatter about Lehman Brothers and let us get back to business.

Prashant Bhatia - *Citigroup - Analyst*

Okay, so you can be offensive with this equity. It is not held up against a pool?

Erin Callan - *Lehman Brothers Holdings Inc. - EVP, CFO*

Exactly, and that is the intention.

Prashant Bhatia - *Citigroup - Analyst*

Okay. Then just on the equity trading, if you look at the last four or five quarters and normalize for the private equity and structured gains and losses, it looks like you are running at about $1.4 billion in revenue. This quarter normalized is about $900 million. Is there anything other than environment that is taking that number down? Or can we get back to normal from your perspective?

Erin Callan - *Lehman Brothers Holdings Inc. - EVP, CFO*

Yes, I think if you look at the volumes that took place during the course of the quarter, March was a very, very quiet month on equity volumes. So that is what that number is reflecting.

As you point out, it reflects the environment; it does not reflect anything unique to our franchise, which I think has continued to do quite well.

Prashant Bhatia - *Citigroup - Analyst*

Okay. Then just finally on the record prime brokerage revenue, just a feel for the Fixed Income versus Equity. I don't even know if you look at it that way. But if you do, what was the driver there and what were you seeing on both of (multiple speakers)?

Erin Callan - *Lehman Brothers Holdings Inc. - EVP, CFO*

Yes, Prashant. I don't have the breakdown between those two businesses yet, and I can cover that next week.

Prashant Bhatia - *Citigroup - Analyst*

Great. Thanks.

Erin Callan - *Lehman Brothers Holdings Inc. - EVP, CFO*

You're welcome. Actually, let me finish a final point. I think the driver, consistent with my earlier point, is our ability to get paid an appropriate cost of capital for the use of our balance sheet. So it is really about margin in the business that drove the performance of prime brokerage for the quarter.

Prashant Bhatia - *Citigroup - Analyst*

Okay, thanks.

Operator

Mike Mayo.

Mike Mayo - *Deutsche Bank - Analyst*

Can you just get us from the $3.6 billion gross mark to market loss to the $4.9 billion number you gave in your opening comments?

Erin Callan - *Lehman Brothers Holdings Inc. - EVP, CFO*

Yes, so it is a combination of $3.6 billion, as we talked about, at the gross mark; $5 billion of principal losses, which I discussed.

Mike Mayo - *Deutsche Bank - Analyst*

I'm sorry how much?

Erin Callan - *Lehman Brothers Holdings Inc. - EVP, CFO*

Sorry, $500 million of principal losses; and $700 million of losses on additional hedging strategies.

Mike Mayo - *Deutsche Bank - Analyst*

And those hedging --

Erin Callan - *Lehman Brothers Holdings Inc. - EVP, CFO*

I am working off the $3.7 billion, Mike, which is the net. So it is $3.7 billion plus $500 million plus $700 million.

Mike Mayo - *Deutsche Bank - Analyst*

How much were the severance costs?

Erin Callan - *Lehman Brothers Holdings Inc. - EVP, CFO*

Severance costs about $150 million.

Mike Mayo - *Deutsche Bank - Analyst*

Okay. Then going back to the capital, so this is all excess capital that you are raising, since you are comfortable with the net leverage ratio. On the other hand you want to keep the confidence that you think this capital raise will bring.

So what is your timing for redeploying the new $6 billion of capital? Or should we think about you redeploying maybe $3 billion of capital, which is in excess of the loss that you're taking this quarter?

Erin Callan - *Lehman Brothers Holdings Inc. - EVP, CFO*

Yes, I think you should start with thinking about the $3 billion. Clearly first and foremost and the reason for raising common equity is to fill the hole in the common equity component of the capital structure and get us back to a more normalized and optimized cap structure as it relates to common versus hybrid relationships, which post-loss was -- gotten as far as 60/40. So I think the common was to lever it so it takes us back to a much stronger common equity base versus our hybrid. So I think you should be thinking about the $3 billion.

What's the timeframe? I think certainly over the next six months we see lots of opportunities based on the environment to put that money to work.

Mike Mayo - *Deutsche Bank - Analyst*

Then last question is the harder one. How do we know that you have taken enough write-downs in your real estate book? That is the general question. But maybe some specifics.

What percent have you written down your residential mortgages? You had $11 billion of gross write-downs. What is that on a percentage basis of the original total?

Erin Callan - *Lehman Brothers Holdings Inc. - EVP, CFO*

Okay, I don't have the original total in front of me; so I can come back to you on that, what that specifically translates into.

I think in terms of the confidence level on write-downs, you know it is the following two points. One is that the aggregate number is very large that we have taken since Q3 predictably last year. So that gives me confidence in the actual accumulated loss across those portfolios, resi and commercial.

I think you the other piece though that is very, very important is we were probably the most active seller of assets in the market this quarter across all these asset classes. As I talked about earlier we weren't selling AAAs. We were selling the entire capital structure and we were selling risk assets.

I think unquestionably our price visibility we got from these transactions was tremendous. So much more activity for us certainly than we did last quarter. So I think the confidence level about the remaining inventory can only be higher than it was given all that sales activity, the visibility, the number of clients we dealt with, and the resultant impact on our remaining inventory.

Mike Mayo - *Deutsche Bank - Analyst*

Then how much was Alt-A reduced? Any color you can give on Alt-A? Like what percent of Alt-A is AAA (multiple speakers)?

Erin Callan - *Lehman Brothers Holdings Inc. - EVP, CFO*

I will give that next week, Mike. I don't have the breakout yet on the balance sheet between Alt-A and some of the asset classes within resi. So we will give that in full next Monday.

Mike Mayo - *Deutsche Bank - Analyst*

All right, thank you.

Operator

Jim Mitchell.

Jim Mitchell - *Buckingham Research - Analyst*

Just a quick follow-up. A lot of the questions have been asked and answered. But on the hedging, is that sort of the minute you sell down the assets you can close out the associated hedge? Or is there a timing thing where you still hold on to the hedges while you work through that?

I am just trying to think through, as you reduce assets do you also reduce the basis risk on the hedges?

Erin Callan - *Lehman Brothers Holdings Inc. - EVP, CFO*

Yes, remember we have a dynamic hedging strategy, right? So it is sort of not as simple as this hedge against this position, and then what is the duration of each. So we certainly try to match the duration of the hedges broadly to the asset.

We aren't 100% hedged, because we are in a risk business and I said they are dynamic in nature. So the fact of the experience on the hedges this quarter really in no way is related particularly to the selldown of the assets. Nor do I feel like we end the quarter with an amount of hedges that varies in a meaningful way from the proportion of hedges we had going into the quarter.

So I think we also manage the hedges dynamically with the size of the portfolio. So it is not as if we are sitting there with a whole bunch of hedges on now, with the assets gone.

Jim Mitchell - *Buckingham Research - Analyst*

No, fair enough. But I think everyone wants to be -- are concerned about how much basis risk is still left; and it would be nice to at least have some color on if that has been reduced along with --

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Erin Callan - *Lehman Brothers Holdings Inc. - EVP, CFO*

Well, I would say it is fair to say it has been reduced proportionately with the asset sales.

Jim Mitchell - *Buckingham Research - Analyst*

Okay, that's fair enough. Okay, great. Thanks.

Operator

David Trone.

David Trone - *Fox-Pitt Cochran Caronia - Analyst*

Hi, let me follow up on that last one. The hedging aberration comment that you made -- you seem pretty confident of that. But couldn't you see peers selling assets at potentially lower prices than you have, and so the dynamic could continue?

It seems like that would almost be plausible, given that you have been aggressive in selling and you have kind of created the snowball of repricing downward.

Erin Callan - *Lehman Brothers Holdings Inc. - EVP, CFO*

Yes, I guess on that point, David, I would say the aberration on the derivatives versus cash market is not necessarily related to the selling as much as it related to liquidity. So I want to be clear on that.

So what we have seen happen in the derivatives market is that there is a tremendous amount of liquidity. On the correlation of the cash market, there are parties who are willing to finance cash assets at this point. As you know, from the pullback on balance sheets and lending.

So what has happened is if you want to express a view on any of these asset classes, you express it at an unfunded derivative format, because that is the easiest way to do it.

So I think the predominance of the difference is driven by liquidity, not by price changes in the market due to selling.

Do I expect liquidity to change around the cash market versus the derivative market soon? No. But do we feel good that the amount of further [diversions] is pretty limited, given that at some point you run out of basis points? Yes.

David Trone - *Fox-Pitt Cochran Caronia - Analyst*

In the Alt-A segment there was the high-profile sale by UBS. Is it safe -- could you characterize where you were relative to that price?

Erin Callan - *Lehman Brothers Holdings Inc. - EVP, CFO*

Relative to the UBS prices from their presentation back a month and a half ago?

David Trone - *Fox-Pitt Cochran Caronia - Analyst*

Yes.

Erin Callan - *Lehman Brothers Holdings Inc. - EVP, CFO*

Well, what I can tell you is that at the time of their presentation our marks were consistent with theirs. Obviously there has been price action since then, but it was consistent with their marks at that point in time.

David Trone - *Fox-Pitt Cochran Caronia - Analyst*

Okay. How about next week? Could you tell us if we are below that point? Or --

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Erin Callan - *Lehman Brothers Holdings Inc. - EVP, CFO*

Well, we never tell you specific marks nor do we tell you marks across asset classes. But I can certainly give you a sense of whether there has been deterioration in prices from that point in time.

David Trone - *Fox-Pitt Cochran Caronia - Analyst*

Okay. Then switching gears to your creditor counterparty comment, you said things are fine. How is that different? Obviously it is different from mid-March.

But could you kind of contrast the less obvious nature of the discussions between now versus the tougher period when Bear was collapsing?

Erin Callan - *Lehman Brothers Holdings Inc. - EVP, CFO*

Yes, I think to be fair the discussions at this point are not about our viability or the fact that we will be here or the fact that we have sufficient liquidity. I think we put that to bed on a number of different levels through our own actions. Obviously to some extent through the Fed's actions.

So I don't think there is any question on the part of any of our counterparties or lenders that they will be repaid by Lehman Brothers. I think there is good debate that is being had about the investment banking sector, its return profile as we move forward in a lower leveraged environment.

But we are not having any conversations with counterparties or lenders about whether they feel confident extending funds and credit to us.

David Trone - *Fox-Pitt Cochran Caronia - Analyst*

Okay, and that is a good segue into one last question and this is it. Your deleveraging-ROE connection, if you go back to the late 1990s we had an equity boom and you and your peers were doing only about 20 times leverage, but you were putting up 30% ROEs. Right now it is tough to imagine in an environment like this that there will be another boom ever again. But of course there will be.

Why couldn't -- if the next boom that emerges in a few years is centered on something other than credit, why couldn't you go back to a higher ROE and [thus] blend the cross-cycle to something closer to 20?

Erin Callan - *Lehman Brothers Holdings Inc. - EVP, CFO*

I am not saying that it's not possible, Jim. What I want to do is be very careful and conservative about the expectations we set.

David Trone - *Fox-Pitt Cochran Caronia - Analyst*

Okay, fair enough.

Erin Callan - *Lehman Brothers Holdings Inc. - EVP, CFO*

Actually I want to come back to one earlier point for clarification. The question about the commercial mortgage line item, there are some nonconsolidated equity pieces in that line item. The amount of them is much less than the first mortgage debt in the real estate held for sale line.

So I just wanted to clarify there is some small amount of nonconsolidated equity in that line item.

Operator

Are you ready for the next question?

Erin Callan - *Lehman Brothers Holdings Inc. - EVP, CFO*

Thank you.

Operator

Douglas Sipkin.

Douglas Sipkin - *Wachovia Capital Markets - Analyst*

Hi, good morning. Just three questions. First off, I know back when you did the first offering you had indicated that you could have raised double, triple what you did. So I am just a little curious why you didn't take advantage of that at a better price, especially knowing that you were embarking on an initiative to shrink the balance sheet and likely would be absorbing some losses along the way?

Erin Callan - *Lehman Brothers Holdings Inc. - EVP, CFO*

Okay. Very importantly, Doug at the end of March we did not have the visibility on the loss that we ultimately suffered in the quarter. So we didn't have that expectation.

Also as I talked about earlier, the deleveraging itself did not create a meaningful P&L event. So I want to be clear about that. So there were price reductions in the quarter and asset write-downs associated with the environment; but it wasn't because we were selling assets that we experienced significant losses.

So both of those things were really not particularly relevant at that point at the end of March.

Douglas Sipkin - *Wachovia Capital Markets - Analyst*

Okay. Second question is can you talk about the particular areas where you are starting to see meaningful pricing power? I know you mentioned parts of fixed income trading. Can you drill down into some on a more specific basis, what areas you really think there are opportunity with capacity coming out?

Erin Callan - *Lehman Brothers Holdings Inc. - EVP, CFO*

Yes, certainly as you mentioned the flow businesses and fixed income, there is much, much higher margins to be made on trading those asset classes than we have seen in a very long time.

Interestingly as I mentioned earlier, prime brokerage given the pullback of balance sheet across-the-board in our industry, the ability to charge more appropriate levels for the use of our own balance sheet has been very constructive during the course of the quarter.

The equity flow businesses also have been able to -- have really demonstrated a great ability to make money throughout the board. We have seen a very big change in acquisition finance in our M&A activity in terms of what we can get, to the extent we want to go down the path of committed financing. In fact committed financing is not necessarily a quid pro quo for M&A advice, so that is a big change.

In general, firm relationship loans, where we provide balance sheet to our clients as part and parcel of a relationship, are being charged differently and more consistent with market levels. So it is really across the board in every asset class and virtually everywhere we do business.

Douglas Sipkin - *Wachovia Capital Markets - Analyst*

Okay, great. Then finally can you just walk us through, you mentioned obviously the trends of March, April, May. Just can you characterize how much better May was than April? And any color on early trends into June?

Erin Callan - *Lehman Brothers Holdings Inc. - EVP, CFO*

Yes, May as I mentioned was one of our best run rate revenue months. So you pretty much could draw a straight line upwards from March through May to give you a feel for the change in activity.

I think you are going to find when others report in our sector that that was consistent across the board. Obviously we are only one week into June so I hate to make a trend of it; but the first week of June was very strong and consistent with May.

Douglas Sipkin - *Wachovia Capital Markets - Analyst*

Great. Thank you.

Operator

That concludes today's question-and-answer session.

Erin Callan - *Lehman Brothers Holdings Inc. - EVP, CFO*

I want to thank everybody for joining us today, again on pretty short notice. I am going to be happy to be back here talking to you a week from today on the 16th with more detail about the quarter. We appreciate your patience and appreciate your getting up and having the time to talk to us on this call.

Also for those who particularly supported us in our capital raise, we look forward to moving into the next step of this paradigm and getting a lot more interest and activity around the business as we proceed.

So thanks everybody for today and we will be back next Monday talking to you in further detail. Thanks.